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SUBJECT: MALAWI AT THE AGOA FORUM

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¶1. (SBU) Summary: Malawi will send a senior delegation led by its new Finance Minister to the AGOA Forum in Nairobi. The forum offers the GOM a rare opportunity to engage with senior USG officials. Malawi's widely praised presidential elections in May, in which President Mutharika and his party received a resounding new mandate, have ushered in what should be a period of greater stability and progress. The country that has already made significant economic strides over the last five years. Malawi is a showcase for the USG's multifaceted development efforts in Africa, including PEPFAR, the President's Malaria Initiative, an MCC compact under development and a Qcessful and growing USAID portfolio. Encouraging larger-scale Malawian participation in regional peace-keeping is another Mission goal. Malawi has not taken full advantage of AGOA, mainly due to its chronic problems with infrastructure and high costs that have hampered investment in light manufacturing. Our prospective MCC compact is being designed to help the country address those fundamental constraints on economic growth. End Summary.

¶2. (SBU) In response to the Secretary's invitation to the AGOA Forum in Nairobi, the GOM put together a high-level delegation headed by the Minister of Finance, and seconded by the Minister of Trade and Industry. The GOM took a greater interest in the event after the Ambassador highlighted it in a recent meeting with the Minister of Finance. The Ambassador and emboffs briefed the Minister and his staff on AGOA and aspects of the meeting July 31.

¶3. (SBU) Malawi has entered a new political era in the wake of successful national elections in May. The resounding victory of President Bingu wa Mutharika and the ruling Democratic Progressive Party (DPP) was recognized by all local and international observers. Mutharika now enjoys a two-thirds majority in Parliament, so years of stalemate in the national legislature are over. The national budget was just debated and approved on time for the first time since Mutharika took office in 2004. The President now controls the political agenda and has appointed a strong and credible cabinet, including those ministers who will be traveling to the AGOA Forum. There is some concern that Mutharika's new, almost absolute power could ultimately lead to a weakening of democratic institutions, but the mood at the moment in Malawi is relief that a serious government is firmly in charge.

¶4. (SBU) Malawi is among the twenty poorest countries in the world, but has the potential to dramatically increase its agricultural production. Over the last four years, Malawi's economy has grown at an average 7 percent rate, among the fastest growing in Africa. Improved economic policies under the Mutharika administration led to the country's first

successful completion of an IMF support program (Poverty Reduction and Growth Facility - PRGF) in 2008. Abundant rainfall has been crucial, but some of the credit goes to President Mutharika's signature fertilizer and seed subsidy programs. These programs played a significant role in Mutharika's recent landslide victory. An improved macroeconomic climate has also increased domestic investment and produced impressive growth, including in services. There has been some political manipulation of the subsidy programs as well as some unwelcome government meddling in agriculture markets, but on the whole, Mutharika's government has meant progress for most Malawians.

15. (SBU) USG efforts in Malawi are focused on fighting HIV/AIDS and promoting economic development. Malawi and the USG signed the first-ever PEPFAR Partnership Framework in May. Under this agreement, PEPFAR will roughly double annual assistance available to Malawi (up to \$44 million) and the GOM commits to implement policies to enhance the national AIDS response. Other US assistance goes to strengthen Malawian primary education and health systems, and is making a difference. The USG supports Malawian economic development through programs to improve food security and develop agricultural markets. Our efforts will be significantly ramped up through a Millennium Challenge Corporation (MCC) compact, expected to be signed in 2010, which will develop the electric power sector and parts of the country's road network. In addition to providing an expected \$300 million, the compact should advance needed policy reforms. In all these programs, the U.S. Mission has found the Malawian Government to be a cooperative and motivated partner.

16. (SBU) Malawi generally keeps a low profile in foreign affairs. It has developed a closer relationship with China over the last two years after severing relations with Taiwan,

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but retains friendly ties with Western nations as well. President Mutharika has been reluctant to criticize President Mugabe in neighboring Zimbabwe, and has generally deferred to the consensus within Southern African Development Community (SADC), as Malawi does on most regional matters. An important focus for the U.S. Mission has been to support the desire of the Malawi Defense Force to deploy its first full battalion to a UN peacekeeping operation in Africa. The US trained and partially equipped the battalion, but the GOM has not yet come up with the remaining \$15 million dollars to meet UN PKO equipment requirements. Post continues to pursue a solution on this issue.

17. (SBU) Comment: In the two months since the May elections the mood in Malawi continues to be upbeat. The Government has moved swiftly to appoint cabinet ministers, address a major backlog of pending legislation, and advance President Mutharika's agenda for Malawi. Despite a complete change in ministers, Post continues to enjoy outstanding access to all key players in Government. We will use this access to advance U.S. interests and to ensure the continued respect for democratic institutions in light of the newly dominant role of the ruling Democratic Progressive Party (DPP).  
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